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FEDERAL COMMUNICATIONS COMMISSION
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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs	)	CC Docket No. 97-160

TO: THE COMMISSION

COMMENTS OF PUERTO RICO TELEPHONE COMPANY

Puerto Rico Telephone Company ("PRTC") hereby submits comments in response to the Commission's Further Notice of Proposed Rulemaking, CC Docket 96-45, FCC 97-256, released July 18, 1997 regarding the development of a model which is intended to estimate the cost of providing universal service by non-rural carriers serving high cost areas. Although PRTC is providing preliminary comments in response to the Commission's notice, PRTC believes that it is inconsistent with the express provisions of Section 254 of the Communications Act for the Commission to group non-rural carriers serving insular areas with all other non-rural carriers for purposes of determining universal service support.

I. INTRODUCTION

PRTC has urged the Commission to apply the clear statutory language of Section 254(b)(3) of the Communications Act and address the unique challenges faced in delivering universal service in insular areas. These unique needs led Congress to identify separately, in the new provisions of the Act governing universal service, carriers serving insular areas like Puerto Rico.

Carriers serving insular areas must be afforded additional time for the transition to a proxy model methodology and this transition should occur only when a modeling approach can be validated. This is the only practical course in view of the fact that the proxy models developed to date do not incorporate essential data on Puerto Rico.

It is impossible to estimate universal service costs in Puerto Rico using the models that now exist. It is equally impossible for the Commission to predict whether the universal service goals mandated by the Act will be met in Puerto Rico through the use of the models now under consideration. As is the case for rural carriers, the existing models have not been tested with regard to their ability to predict accurately the costs of providing universal service in an insular area.

Even though no model currently incorporates Puerto Rico data, PRTC is providing comments in response to the

Commission's notice. Nevertheless, it is important to note that fundamental assumptions underlying the Commission's approach to universal service are not valid in Puerto Rico.

Unlike the situation which exists on the mainland, universal service has not been achieved in Puerto Rico. Only 74 percent of households have a telephone. Current telephone rates are unaffordable to many on the island, where almost half of the residents have incomes below the poverty line. Although local telephone rates are comparable to those on the mainland, the per capita income level in Puerto Rico is only 1/3 of the national average. Interstate toll usage -- and thus the revenues from access charges -- are inordinately low.

PRTC's size, although significant, is far below that of the largest non-rural carriers (less than 1/15 of the size of the RBOCs) and does not produce the economies of scale necessary to provide affordable phone service to the people of Puerto Rico. This is especially true in the loop infrastructure where many homes passed do not subscribe to service. Thus the subscriber density in these areas is far lower than the population density would suggest. Importantly, it does not appear that any of these factors -- which are the defining features of the universal service problem on the island -- are addressed in the models under consideration.

II. THE MODELS MUST BE VERIFIED BY COMPARISON WITH ACTUAL COSTS

The models under review seek to replicate the design and decision process undertaken in building a modern telecommunications network. The Commission's approach reflects a value judgment that the telecommunications network should be built in a particular way (i.e., with the most modern available technology).[1] Without conceding the appropriateness of this value judgment, the only realistic means of testing the validity of a proposed model is to compare its results with those experienced in the real world in constructing state-of-the-art networks.[2] If the models' results are not the same as those produced in the real world or if differences cannot be identified and explained satisfactorily, then the model is a hypothetical exercise, detached from real world results and its use cannot be justified.

PRTC believes that a comparison of real world and model results is especially important with respect to Puerto Rico

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1. It is important to note that this approach may not lead to the lowest telecommunications costs because in real networks important decisions must be made on a day-to-day basis regarding the appropriate time for the introduction of new technologies.

2. This may be the only lawful means of confirming the validity of the model as well. To the extent that a model, and the compensation system predicated on it, produces results that vary significantly from the cost actually incurred in providing the relevant service, rote application of the model could significantly over-compensate or under-compensate the carrier.

for two reasons. First, the conditions in Puerto Rico, an insular area, are not comparable to those on the mainland and if the models do not account for these differences, they are defective. Second, PRTC's switching and transport network is exactly the kind of network that the models seek to emulate. PRTC's switches are all digital and its transport network is all fiber. Given the modern character of this network, a correctly designed model should produce results very comparable to the company's actual costs.

III. THE REASONABLENESS OF PROPOSED MODEL PLATFORMS CANNOT BE VERIFIED FOR PUERTO RICO AT THIS TIME

The Commission's notice seeks comment on certain details of the model platforms proposed for use in calculating universal service support. However, the models have never been populated with Puerto Rico data. For this reason, the operation of the models as they apply to Puerto Rico cannot be tested and the reasonableness of the algorithms and assumptions cannot be verified. With this caveat, PRTC offers the following general comments with regard to the models' construction.

Regarding the use of host and remote switches, the relevant cost comparisons cannot be made simply by calculating the per-line cost of respective host and remote switches. This problem presents an example of the difficulty faced in attempting to model real world decisionmaking and engineering practices. First, the cost

of the remote switch cannot be assessed on a stand alone basis because the addition of a new remote switch, or the addition of lines to an existing remote switch, requires additional switching intelligence at the host. Moreover, the deployment of host and remote switches is heavily affected by considerations regarding the deployment of loop plant. The use of a remote switch with pre-existing loop plant may be far cheaper than the deployment of a larger host switch if the latter action requires the reconstruction or reorientation of thousands of local loops. Thus, the per-line costs of the respective switches do not reflect either cost increases or savings experienced in other components of the overall telephone network.

Similar problems arise in attempting to estimate per-line switch costs. The most accurate gauge of per-line switch costs is the amount actually paid to a switch vendor for a particular purchase. Those costs will be affected by switch size, market conditions, relative bargaining power and a variety of other factors. PRTC's experience suggests that there is a wide variation in per-line switch costs even for switches purchased within the same time period. In many cases these costs are far higher than the per line estimate proposed by the Commission for use in the models.

The determination of which switch to purchase will also be affected by factors other than the per-line cost of the switch. For example, the cost of providing maintenance and

technical support for switches from multiple vendors may be balanced against differences in the price of acquisition of those switches. These kinds of judgments are difficult, if not impossible, to incorporate in a modeling process.

IV. THE USE OF A MODEL IN DETERMINING UNIVERSAL SERVICE SUPPORT FOR PUERTO RICO SHOULD BE DELAYED UNTIL A MODEL CAN BE VERIFIED

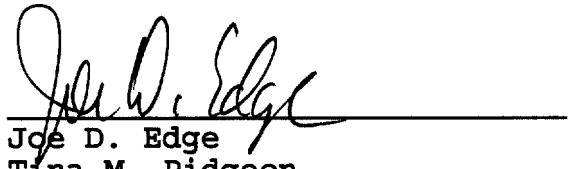
Although the models under consideration have been populated with mainland demographic data, they do not contain any such data for Puerto Rico. It appears that Puerto Rico data will not be introduced into the models for several more months. For this reason, it will be impossible to determine whether the models produce reasonable results at the time the Commission envisions that its process of model development and review will be completed. At that time, consideration and review of the models as they apply to Puerto Rico will have only begun. For this reason, PRTC must continue to rely on its actual costs in determining the need for universal service support and should transition to the use of a model only after a model for Puerto Rico can be adequately verified. It is clear, based on the schedule presently envisioned by the Commission, that this objective will not be achieved during the current phase of the universal service proceeding.

V. CONCLUSION

PRTC urges the Commission to establish an orderly process for review and evaluation of the models as they pertain to insular areas like Puerto Rico. This process should allow adequate time for population of the models with Puerto Rico data as well as review and testing of their results. Until a model is validated for application to Puerto Rico, PRTC should continue to rely on its book costs in determining eligibility for universal service support.

Respectfully submitted,

PUERTO RICO TELEPHONE COMPANY



Joe D. Edge
Tina M. Pidgeon

DRINKER BIDDLE & REATH LLP
901 Fifteenth Street
Suite 900
Washington, D.C. 20005
(202) 842-8809

Its Attorneys

August 8, 1997

CERTIFICATE OF SERVICE

I, Richard J. Arsenault, certify that true and correct copies of the foregoing Comments of Puerto Rico Telephone Company were delivered by U.S. Mail, first class postage pre-paid, on August 8, 1997, to the following:

William F. Caton*
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

The Honorable Reed E. Hundt*
Chairman
Federal Communications Commission
1919 M Street, NW, Room 814
Washington, DC 20554

Honorable Rachelle B. Chong*
Commissioner
Federal Communications Commission
1919 M Street, NW, Room 844
Washington, DC 20554

The Honorable Susan Ness*
Commissioner
Federal Communications Commission
1919 M Street, NW, Room 832
Washington, DC 20554

The Honorable James H. Quello*
Commissioner
Federal Communications Commission
1919 M Street, NW, Room 802
Washington, DC 20554

The Honorable Julia Johnson,
Chairman
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Building
Tallahassee, FL 32399-0850

The Honorable David Baker
Commissioner
Georgia Public Service Commission
244 Washington Street, S.W.
Atlanta, GA 30334-5701

The Honorable Sharon L. Nelson
Chairman
Washington Utilities and Transportation Commission
1300 S. Evergreen Park Dr. SW
P.O. Box 47250
Olympia, WA 98504-7250

The Hon. Laska Schoenfelder
Commissioner
South Dakota Public Utilities Commission
State Capitol
500 E. Capitol Street
Pierre, SD 57501-5070

Martha S. Hogerty
Missouri Office of Public Counsel
301 West High Street
Suite 250
P.O. Box 7800
Jefferson City, MO 65102

Tom Boasberg*
Federal Communications Commission
Office of the Chairman
1919 M Street, NW, Room 814
Washington, DC 20554

Charles Bolle
South Dakota Public Utilities Commission
State Capitol
500 E. Capitol Street
Pierre, SD 57501-5070

Deonne Bruning
Nebraska Public Service Commission
300 The Atrium
1200 N Street, P.O. Box 94927
Lincoln, NE 68509-4927

James Casserly*
Federal Communications Commission
Office of Commissioner Ness
1919 M Street, Room 832
Washington, DC 20554

Rowland Curry
Texas Public Utility Commission
1701 North Congress Avenue
P.O. Box 13326
Austin, TX 78701

Bridget Duff, State Staff Chair
Florida Public Service Commission
2540 Shumard Oak Blvd.
Gerald Gunter Building
Tallahassee, FL 32399-0866

Kathleen Franco*
Federal Communications Commission
Office of Commissioner Chong
1919 M Street, NW, Room 844
Washington, DC 20554

Paul Gallant*
Federal Communications Commission
Office of Commissioner Quello
1919 M Street, NW, Room 802
Washington, DC 20554

Emily Hoffnar*
Federal Communications Commission
Accounting & Audits Division
Universal Service Branch
2100 M Street, NW, Room 8617
Washington, DC 20554

Lori Kenyon
Alaska Public Utilities Commission
1016 West Sixth Avenue
Suite 400
Anchorage, AK 99501

Debra M. Kriete
Pennsylvania Public Utilities Commission
North Office Building
Room 110
Commonwealth & North Avenues
P.O. Box 3265
Harrisburg, PA 17105-3265

Sandra Makeeff
Iowa Utilities Board
Lucas State Office Building
Des Moines, IA 50319

Philip F. McClelland
Pennsylvania Office of Consumer Advocate
1425 Strawberry Square
Harrisburg, PA 17120

Thor Nelson
Colorado Office of Consumer Counsel
1580 Logan Street, Suite 610
Denver, CO 80203

Barry Payne
Indiana Office of the Consumer Counsel
100 North Senate Avenue
Room N501
Indianapolis, IN 46204-2208

Timothy Peterson, Deputy
Division Chief*
Federal Communications
Commission
Accounting & Audits Division
2100 M Street, NW, Room 8613
Washington, DC 20554

James B. Ramsay
National Association of
Regulatory Utility
Commissioners
1100 Pennsylvania Avenue, NW
P.O. Box 684
Washington, DC 20044-0684

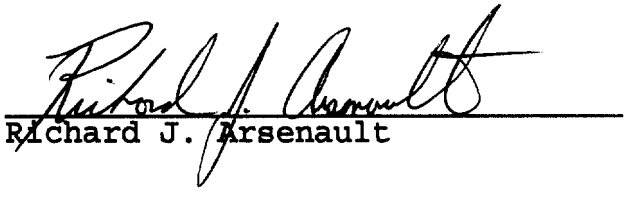
Brian Roberts
California Public Utilities
Commission
505 Van Ness Avenue
San Francisco, CA 94102

Kevin Schwenzfeier
NYS Dept. of Public Service
3 Empire Plaza
Albany, NY 12223

Tiane Sommer
Georgia Public Service
Commission
244 Washington Street, S.W.
Atlanta, GA 30334-5701

Sheryl Todd*
Accounting and Audits Division
Universal Service Branch
Federal Communications
Commission
2100 M Street, NW, Room 8611
Washington, DC 20554

ITS*
1231 20th Street, NW
Room 102
Washington, DC 20037



Richard J. Arsenault

*via hand delivery